White Paper

Value of Cisco® TelePresence™ in Strengthening Financial Supervision

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Value of Cisco TelePresence in Strengthening Financial Supervision

The series of G-20 Summits in 2009 revealed a welcome and promising consensus on the policies and governance structures required to reform the global banking system. Better "macro-prudential" supervision will be facilitated by enhanced roles for the Washington-based International Monetary Fund (IMF), and by a strengthened mandate and expansion of the Basel-based Financial Stability Board (FSB) to include all G-20 countries, Spain, and the European Commission. There are also numerous references in supporting documents to "more intensive collaboration" among supervisory agencies, both to agree upon detailed rules and to improve the effectiveness of "supervisory colleges" for large financial institutions. All this is expected to be achieved by November 2010—compared with the seven or eight years required to settle upon the last set of banking regulatory changes, the so-called Basel II reforms.

Yet throughout several hundred pages of publicly available reports produced to support the G-20 Summits—from the EU, the United Kingdom's Financial Services Authority (FSA), U.N., U.S. Treasury, and G-20 Working Groups—*there is not a single mention of the role technology could play in supporting the new system.* Several reports suggest the need for more resources or new skills,[1] but there is no discussion of the challenge of delivering the greater international collaboration that is at the heart of so many of the proposals.[2]

This paper explores how advanced collaborative technologies such as telepresence can play a critical role in accelerating the implementation of plans to reform the global financial system, and reviews benefits that can be derived from their widespread application.

> "We also agree to establish the much greater consistency and systematic cooperation between countries and the framework of internationally agreed high standards that a global financial system requires."
>
> Communiqué of G-20 London Summit Leaders Statement
> April 2, 2009

Areas of Reform Requiring More International Collaboration

Almost all of the proposals for reform will require more frequent and widespread collaboration among national, regional, and international supervisory agencies and their constituent bodies in order to accelerate decision making. Some areas, however, can be particularly highlighted:

- Agreeing upon rules and mechanisms for the new "macro-prudential" approach to supervision of the finance sector— at national, EU, and global levels

- Expanding the number of supervisory colleges for cross-border financial institutions and the frequency of meetings—both at the EU and global levels
- Enhancing the process for management of crises at cross-border financial institutions, and for Early Warning Exercises
- Agreeing upon new rules on capital adequacy, liquidity management, and counter-cyclical capital buffers, and upon improved regulatory oversight of hedge funds / private equity, credit-rating agencies, and compensation policies
- Establishing new institutions such as the U.S. Financial Services Oversight Council or the EU's European Systemic Risk Board
- Enhancing collaboration among national supervisory agencies and their staff assigned to increasingly powerful international bodies

The wide geographic spread of influential national regulatory agencies and centers where the main organizing bodies are based—Seoul (G-20 leadership in 2010), Basel (Bank for International Settlements [BIS] / FSB), Frankfurt (European Central Bank [ECB]), Washington (IMF)—makes it imperative that more modern forms of communication technologies be deployed to enable faster, less expensive international collaboration.

Role of Technology in Enhancing Collaboration Among Agencies

The present approach to international cooperation among regulatory and supervisory authorities is unfit for addressing today's challenges. It usually consists of a series of formal meetings at various levels to prepare final recommendations to be endorsed by policymakers. Committee meetings are preceded by working groups that are informed by teams of experts. There are also an increasing number of ad hoc meetings among the most senior executives to address urgent issues often driven by increased political pressures. The pace of progress is defined largely by the speed with which formal meetings can take place.

True collaboration—i.e., where parties work together in a joint intellectual effort—is enabled when parties can meet quickly when needed, often in an ad hoc manner, and are able to share information and opinions effectively. This method of working is limited in the current process for two main reasons: 1) an essential lack of trust among national and international supervisory authorities, and 2) the lack of technology to enable face-to-face meetings without travel. These limiting factors are linked: fewer, formally set-up meetings reinforce historical misunderstandings, whereas frequent, less-formal face-to-face meetings breed trust, enable teamwork, and develop stronger working relationships.

Moreover, when a crisis develops and teamwork is even more essential, many of those involved instead need and want to remain in their home location to be close to other domestic decision makers, their full support infrastructure, and their political masters.

In addition, the need for enhanced trust is as true for the domestic supervisor wanting to "control" his or her representatives in international bodies as it is for the national supervisors themselves. Indeed, until now, representatives of member states were only loosely coupled to their home agencies, and the two or three statutory meetings per year attended by the head of the home agency were deemed sufficient to allow control. As the international bodies are strengthened, member states will search for mechanisms to increase their influence on the decision-shaping process.

Proposals to expand the number and effectiveness of "supervisory colleges" will equally require a new approach to collaboration. These colleges are relatively new and have developed voluntarily over time, with the FSB taking the lead in agreeing upon principles to govern the coverage-structure role and working methods. Colleges exist now for more than 30 "large, complex financial institutions," but a recent report by the Basel Committee for Banking Supervision (BCBS) identified many shortcomings .[3] We doubt that the current approach of just two formal physical meetings per year,[4] supplemented by conference calls, is sustainable in the current environment or will enable maximum effectiveness of those colleges.

Whatever collaboration method is selected, it must meet certain requirements:

- Ability to handle large or small groups from multiple locations
- Strong security
- Support of interpreters
- Immersive environment where body language is visible
- Efficient control of total operating costs

Already in the private sector, a range of technologies has been deployed by global companies to overcome such challenges as these organizations seek to become effective across geographical borders. These solutions extend from closed social networks and discussion forums to voice, video, and data-sharing technologies. One new technology in particular—telepresence—is making a significant impact and attracting considerable attention.

Cisco TelePresence: Cutting Costs, Improving Productivity

Cisco TelePresence is a high-definition-video, spatial-audio technology that creates an immersive, life-size meeting-room experience—teams of individuals can meet face-to-face without actually being in the same physical location. In addition to eliminating the need to travel, Cisco TelePresence enables meetings that probably wouldn't be held at all if traditional video conferencing or audio conferencing were the only options. Cisco TelePresence also allows participants from up to 48 different locations to be included in a single meeting, without anyone needing to leave his or her own office.

As the market leader of video collaboration technology, with 67 percent market share, Cisco offers TelePresence systems that are deployed using a high-bandwidth Internet connection. Unlike traditional video-conferencing systems, scheduling and starting a meeting with Cisco TelePresence is as easy as making a telephone call. Meetings can be recorded and interpreters can be included in the meeting. The technology is already time-tested, with Cisco having deployed more than 4,000 units around the world, including more than 500 in its own business. In addition, 11 of the world's largest global telecommunications providers now operate a business-to-business service allowing different organizations to link up—just as if they were making a phone call.

More than 450 customers—from the Financial Services (including most of the largest financial institutions), Pharmaceutical, Transportation, Energy, Manufacturing, Retail, Consumer Packaged Goods, and Healthcare industries—have deployed Cisco

TelePresence to enhance collaboration, accelerate decision making, and reduce the time and cost of executive travel.

While it is possible to envision virtual meetings of whole boards—as is already being practiced in the private sector—it is more likely that Cisco TelePresence initially would be used by the financial community as a substitute for many of the smaller committee, working group, and ad hoc meetings of senior officials of supervisory agencies. Cisco TelePresence enables participants to meet with their international or domestic colleagues from other agencies while staying at home to address local priorities. Cisco TelePresence could be especially useful for meetings of supervisory colleges where the BCBS has pledged to provide best-practice guidelines by the first quarter of 2010.[3]

Governments and regulatory agencies have so far been slower to adopt telepresence technology, but this is changing. At the December 2009 U.N. Climate Change Conference in Copenhagen, the Danish Ministry of Foreign Affairs organized—with Cisco support—a series of meetings using Cisco TelePresence to link participants from various U.N. agencies, Danish embassies, and Cisco offices around the world. In addition, the Australian government announced that it is building a national Intergovernmental Cisco TelePresence System, starting with 23 units.

> "We'll save much more than airfares and lost working time. We'll improve public sector productivity—meetings which might have required two weeks notice and therefore deferred a decision for two weeks perhaps may happen in two days."
>
> Australian Government Minister for Finance, the Hon. Lindsay Tanner,
> National Press Club, March 11, 2009

Figure 1. Cisco TelePresence Room, with Image of Remote Booth for Interpreters

Source: Cisco IBSG, 2009

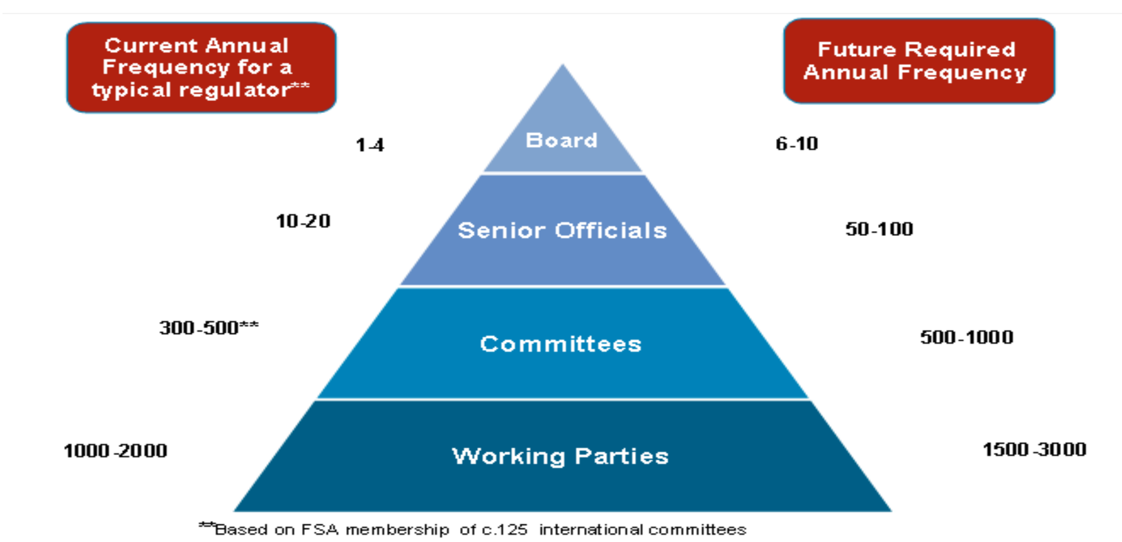
Implications for Ways of Working

If the major G-20 supervisory authorities and key international bodies such as the FSB / BIS, the IMF, the ECB, and the EU Commission all had access to interlinked telepresence systems, the whole process for agreeing on and implementing reforms to global financial regulation put forward by the G-20 program could be accelerated and made more effective. The practical problem of arranging dates for meetings—where almost all participants have to travel long distances—is real, and with the extended membership of the FSB, will only become more severe. For the FSB / BIS alone, a telepresence link to its regional representative offices in Hong Kong and Mexico City could provide substantial travel savings and accelerated decisions. Rather than needing to schedule a minimum of three days for visits between offices, meetings could take place over a few hours.

There may be an aversion at some levels to substitute overseas trips with telepresence meetings, and there is undoubtedly a continuing role for physical, face-to-face meetings and the socializing associated with them. With pressure mounting on senior officials to attend more meetings, Early Warning Exercises, and supervisory colleges (not least from those concerned about the environmental footprint), the need for an alternative way to enhance and maintain interagency relationships will grow.

Figure 2 illustrates how meeting frequency might need to change as a result of calls for more international collaboration across so many areas, using the U.K. regulatory agency, the FSA, as an example. Data are not published or available regarding the number of meetings, so these are estimates based on discussions with former officials. International agencies such as the ECB already have a more intensive meeting schedule: the Governing Council and 15 committees of the Eurosystem / European System of Central Banks (ESCB) each meet once or twice per month. The use of telepresence would remove the need to travel for many of these meetings.

Figure 2. Meetings of International Regulators at All Levels Must Accelerate if Changes Are To Be Implemented More Quickly



Source: Cisco IBSG, 2009

Deployment of telepresence and other collaborative technologies, however, will require a sea change in the approach of international supervisory agencies toward the use of IT. Rather than being seen as a necessary cost to be minimized, technology must be viewed as an enabler of greater supervisory effectiveness. There is no sign of such attitudes at present. To take just one example, the ECB coordinates a basic, secure conference calling facility that is hardly used by most constituent central banks because of difficult setup. And as far as can be ascertained, other international agencies are just as poorly served in terms of communications.

Benefits and Lessons from Early Users of Collaboration Technologies

When organizations adopt telepresence, the business case most often is driven by the tangible, hard cost savings and productivity benefits that result from reduced travel. One major global bank estimated that it needed to save only four intercontinental person-trips per month (or 12 to 15 within the same continent) to cover the fully loaded costs of operating two 6-seat Cisco TelePresence units. Tesco, the U.K.-based international grocery and retail chain, has cut travel spending[5] in its IT and International Operations departments by 45 percent as a direct result of deploying Cisco TelePresence, yet remains as effective a global organization as ever.

While travel-cost and CO2-emissions savings also will be important for the financial supervisory community, the real benefits should come from accelerating implementation of the new measures being envisaged. The costs of delays in decision making will be felt in heightened risks to the global financial system and lower growth due to prolonged uncertainty on regulatory reform. Avoiding these costs is the big potential prize from widespread application of more advanced communications technologies such as telepresence.

Cisco deploys TelePresence as one of a range of technologies to enhance collaboration. Other technologies include Cisco WebEx™, a laptop-based voice, data, and video-sharing solution; wikis, blogs, and other discussion forums; and an internal version of YouTube. It is Cisco TelePresence, however, that has had the greatest impact: a 57 percent reduction in travel cost per employee; 182,000 metric tons of emissions saved; and acceleration in “deal cycle” times of 9.7 percent.[6]

On average, Cisco TelePresence rooms are used for 49 percent of a 10-hour day at Cisco, with utilization rates far higher in major cities such as London, New York, or Hong Kong. This compares with a typical 5 percent daily utilization of traditional video conferencing. High utilization figures are being achieved by other large-scale users such as Procter & Gamble.

For Cisco, TelePresence adoption accelerated once a critical mass of about 50 locations was reached. Therefore, while the early initiative could come from core international supervisory agencies such as the IMF, BIS, and ECB, the existence of a wider network embodying all G-20 supervisory agencies would yield the greatest value for all.

Another lesson from Cisco and other enterprises that have adopted this technology is the need to make it easy to use by all those with a strong reason to meet and avoid lengthy travel. This helps spread the benefits of speed and efficiency across a wider range of decision makers. While it may be important for senior officials to be early users in order to stimulate interest, the network should eventually be open to all those involved in international supervisory activities.

Conclusion

While the G-20 program provides strong guidance and commitment to the reform of the global financial system, the details of implementation will be worked out over the coming months. One strand of the implementation program needs to be the deployment of technologies to support the extra staff that will be required if the program is to succeed. Collaborative technologies such as telepresence can be deployed relatively quickly if the sponsorship and budgets are put in place by the main supervisory agencies in a coordinated manner.

Endnotes

1. FSA Discussion Paper 09/2, page 188.
2. U.S. Treasury Framework for Regulatory Reform, March 26, 2009—one of "four broad components of comprehensive regulatory reform."
3. BCBS Report and Recommendations of Cross-border Bank Resolution Group, September 2009.
4. FSA, The Turner Review, March 2009, page 86.
5. Article on Tesco 2.0 in *Retail Week,* January 8, 2010.
6. Cisco Executive Metrics Dashboard, data to March 8, 2009.

More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps CXOs and public sector leaders transform their organizations—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that address key CXO concerns.

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